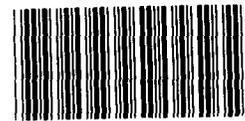


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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

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STATEMENT OF
WERNER GROSSHANS, DIRECTOR
DEFENSE BUDGET TASK FORCE
BEFORE THE
SUBCOMMITTEE ON LEGISLATION AND NATIONAL SECURITY
HOUSE COMMITTEE ON GOVERNMENT OPERATIONS
ON
DOD'S ECONOMY AND EFFICIENCY
CLAIMED SAVINGS



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Mr. Chairman and Members of the Subcommittee:

I appreciate the opportunity to appear before your Subcommittee to discuss the Department of Defense's Economy and Efficiency Program. The President's fiscal year 1983 budget reported that DOD had taken actions to reduce total obligational authority by \$51.4 billion between fiscal years 1981 and 1987. Subsequently, DOD has identified about \$1 billion in additional savings, bringing the total estimate to \$52.4 billion. In announcing this package in February 1982, DOD noted that this program was one part of a broad campaign against inefficiency and waste. When testifying about these economies before the Committees on Armed Services, the Deputy Secretary of Defense cited these figures as clearly demonstrating DOD's singleness of purpose in the area of efficient management.

At the request of the Chairman of the Senate Committee on Armed Services, GAO examined the claimed savings and reported^{1/} that:

- Substantial savings are possible if the reforms were implemented as planned.
- The claimed savings are based on preliminary budget estimates and must be considered tentative.
- No formal system existed for tracking the savings which were actually achieved.

We also stated we would continue to monitor DOD's actions in this area and our current effort attempted to determine:

^{1/}"Estimated Savings Reported by the Department of Defense"
(PLRD-82-69, April 30, 1982)

- If the projected savings can be expected to accrue.
- If the savings projected for fiscal years 1981 and 1982 were realized.
- If the savings projected result from actions which DOD initiated.

Lacking specific DOD criteria, we classified the savings for each initiative selected for detailed analysis into three categories: supported, questionable, and not supported.

To be considered as supported, the baseline had to be identified, computations had to be accurate and supported, and reasonable assurance had to exist that the action could be carried out.

To be considered questionable, the baseline was not supported or the computation lacked the necessary support and there was doubt as to whether or not the action would be implemented to realize savings in the outyears.

To be considered not supported, the initiative was not carried out as planned, or the savings were improperly computed or the initiative could not be implemented without additional congressional action.

We selected a sample of key reforms to review in detail. In total, our work covered about \$40.7 billion of the \$52.4 billion projected savings. The details are presented in the attachment to this statement.

In general, we believe that these actions will reduce spending and strongly support DOD's economy efforts. However, we do not believe that the projected savings from the proposed economies and efficiencies were adequately supported. We concluded that \$10.8 billion, which represents about 27 percent of our sample, is adequately supported. The remaining \$29.4 billion, or 73 percent, was considered either questionable or not supported. When considered from the perspective of whether DOD initiated the reform, we found that:

--Of the total projected savings, \$25.3 billion, or 48 percent, was the result of DOD management actions. We reviewed \$13.6 billion of these projected savings and concluded \$4.1 billion, or 30 percent, was supported.

--Of the total projected savings, \$27.1 billion, or 52 percent, will result from congressional or Government-wide actions, which DOD did not initiate. We reviewed all of these and concluded that \$6.7 billion, or 25 percent, was supported.

A similar analysis of the \$5.1 billion in claimed savings for fiscal years 1981 and 1982 showed that:

--\$2.9 billion, or 57 percent, was the result of DOD management actions. We reviewed \$1.3 billion and concluded \$568 million, or 44 percent, was supported.

--\$2.2 billion, or 43 percent, was the result of congressional/Government-wide actions. We reviewed all of these and concluded all but \$68 million was supported.

At the time the fiscal year 1983 economies and efficiencies package was submitted to the Congress, DOD had not issued formal guidance as to what constitutes a valid savings and what should be incorporated into the package. DOD addressed this situation when the Comptroller issued guidance in August 1982 for updating the economies and efficiencies program for inclusion in the fiscal year 1984 budget submission. This guidance more clearly delineates what types of initiatives should be included. However, since the Office of the Secretary of Defense has not released the fiscal year 1984 economies and efficiencies package to us, I am unable to state whether the problems have been corrected. More analysis is necessary.

In conclusion, we believe DOD's package was not adequately supported and the guidance which was issued after the presentation to the Congress was sorely needed. We believe there is a strong possibility that the major portion of these savings will not be realized. Therefore, unless DOD can achieve comparable savings in other areas, DOD's outyear budgets have been understated significantly. This means DOD has to pursue one of two actions:

- request additional obligational authority in future budgets; or
- eliminate or reduce the funding for programs currently planned.

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Mr. Chairman, that concludes my opening remarks. At this time I would be happy to address any questions you may have.

Summary of GAO Assessment of DOD claimed Savings (TOA)
During Fiscal Years 1981-1987

<u>Activity</u>	<u>DOD claimed</u>	<u>GAO Reviewed</u>	<u>Sup- ported/ realizable</u>	<u>Ques- tionable/ uncertain</u>	<u>Not sup- ported/not realized</u>
------(millions)-----					
DOD management reforms:					
Personnel	\$ 4,362.0	\$ 4,362.0		\$ 4,321.0	\$ 41.0
Acquisition.	15,311.0	6,195.8	\$ 2,926.5	745.7	2,523.6
Operations	<u>5,616.1</u>	<u>3,077.6</u>	<u>1,156.9</u>	<u>1,292.1</u>	<u>628.6</u>
Subtotal	<u>\$25,289.1</u>	<u>\$13,635.4</u>	<u>\$ 4,083.4</u>	<u>\$ 6,358.8</u>	<u>\$3,193.2</u>
Congressional/ Government- wide actions:					
Personnel	\$26,435.0	\$26,435.0	\$ 6,074.0	\$19,186.0	\$1,175.0
Acquisition	671.3	671.3	602.1		69.2
Operations					
Subtotal	<u>\$27,106.3</u>	<u>\$27,106.3</u>	<u>\$ 6,676.1</u>	<u>\$19,186.0</u>	<u>\$1,244.2</u>
Total	<u>\$52,395.4</u>	<u>\$40,741.7</u>	<u>\$10,759.5</u>	<u>\$25,542.0</u>	<u>\$4,440.2</u>